Canadian Imperial Bank of Commerce Expands Further into the U.S.

Description

Canadian Imperial Bank of Commerce (TSX:CM)(NYSE:CM) acquired Chicago-based PrivateBancorp last month in a $5 billion deal. The deal signaled a return to the U.S. banking sector for CIBC after more than a decade of absence and is set to increase CIBC's earnings from the U.S. market to 10%. In time, CIBC wants earnings from the U.S. segment to account for a quarter of all earnings.

At the time of closing, CIBC chief executive Victor Dodig noted that the focus of the bank would be to continue expansion into the U.S. market, looking at complementary acquisitions wherever possible.

Last week, CIBC did just that, announcing yet another acquisition, this time for Chicago-based private wealth management firm Geneva Advisors.

Geneva Advisors, which has US$8.4 billion in assets, deals primarily with high-net-worth clients. The 100 employees of the company will become part of the CIBC Atlantic Trust Private Wealth Management arm.

Under the terms of the deal, CIBC will complete the purchase in 75% common shares and 25% in cash, valued at $200 million. The deal should close sometime in the fourth quarter and is subject to the requisite approvals.

How does this deal fit with CIBC's strategy?

One thing that, at first glance, appears odd about this deal is the timing. The ink is barely dry on the PrivateBancorp deal, and yet here's another Chicago-based addition to CIBC's growing international portfolio.

From a strategic standpoint, this is a masterclass of a deal, and given Dodig's recent comments, this deal could be the first of more such deals to complement CIBC's re-entry into the U.S. market.

The PrivateBancorp transaction was a means for U.S.-based wealth management customers of CIBC Atlantic Trust to bridge over to the personal and commercial banking segments, with significant crossselling opportunities on both sides now an option.

This latest deal for Geneva Advisors is a way to further bolster the CIBC Atlantic Trust wealth management arm of the bank in the U.S. market.

Some critics have been skeptical about the financial sector in recent months, especially given the exposure to the overheated the Canadian real estate market. Diversifying into the U.S. market helps to alleviate those concerns, while also providing a new, lucrative source of revenue for the bank.

Is CIBC a good investment option?

CIBC is Canada's fifth-largest bank and has neither the strongest earnings nor the most diversified portfolio. Where CIBC does impress, however, is in terms of potential. The stated goal of generating a quarter of earnings from the U.S. market should serve to address any concerns with the stock, particularly over time.

CIBC is an income-producing investment. CIBC pays a quarterly dividend of $1.27 per share, which, at the current stock price, results in a yield of 4.70%. While this may make the stock attractive for income-seeking investors, the stock really shines in terms of long-term potential.

CIBC's stock has retreated slightly in the past few months, but the long-term potential remains as strong as ever. The current pullback could be seen as an opportunity for investors to pick up a position in the stock at a discounted rate, with a P/E of just 9.01 that betters any of the other big banks.

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dafxentiou